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Dear Sir or Madame,

European Federation of Accountants and Auditors for SMEs (EFAA) Response to Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments

The European Federation of Accountants and Auditors for SMEs (“EFAA”) represents accountants and auditors providing professional services primarily to small and medium-sized entities (“SMEs”) both within the European Union and Europe as a whole. Constituents are mainly small practitioners (“SMPs”), including a significant number of sole practitioners. EFAA’s members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs. EFAA represents 17 national accounting, auditing and tax advisor organisations with more than 370,000 individual members.

EFAA broadly welcomes the IESBA’s proposals to address safeguards-related provisions in the independence sections of the *Code of Ethics for Professional Accountants* pertaining to non-assurance services provided to audit and other assurance clients, and is pleased to provide its comments to the Exposure Draft (ED), which have been prepared with input from our Assurance Expert Group. Notwithstanding our general support for the proposals we do have some concerns, outlined under ‘General Observations’ below, and have responded to the specific questions posed in the ED.

General Observations

EFAA Research

A survey conducted by EFAA and the Accountants Association in Poland (SKwP) revealed that accountants, auditors and tax advisors experience significant pressure to, amongst other things, manipulate financial statements. The EFAA survey “Accounting and Ethics: Pressure Experienced by the Professional Accountant”

took stock of the realities facing finance professionals today. 622 European accountants, auditors and tax advisors answered the survey. 64% of respondents said they were put under pressure to act unethically or against regulations at least once in their careers. Significantly accountants value the opportunity to consult when facing pressure. We highlight this research since it may have implications for the safeguards project as well as other IESBA projects and IESBA's future strategy and work plan.

Consideration of SMP Concerns

While we recognize the efforts taken to consider SMP and SME concerns during the development of this project, the specific request for SMP input to the ED and the remarks in the Explanatory Memorandum at paragraphs 3 and 15, we question whether the IESBA has sufficiently addressed such concerns. The need for and what constitutes an appropriate degree of independence, especially in mind, in the context of an SME audit / review differs significantly from that of a PIE audit / review. SME stakeholders simply do not expect nor need the same degree of independence in appearance. We note that the last bullet in 600.4 A3 does acknowledge that perceptions as to the level of threat may differ depending on whether an audit client is a PIE or not. We believe, however, that it would be useful if the Code were to discuss the issue more holistically and accordingly encourage the IESBA to include an explicit acknowledgment that in exercising professional judgement to determine the significance of any threat to independence the circumstances of the specific engagement will materially impact the relative weighting and interaction of such factors.

For example, larger entities may employ individuals with expertise in specific areas, whereas a smaller SME's employees and management will often be generalists with broad responsibilities. Consequently, many smaller SMEs will often lack the in-depth level of expertise that one expects to find in larger entities. Proposed 600.4 A3 refers to the level of expertise of the client's employees with respect to the type of service provided as a factor relevant to the evaluation of the level of threat that may be created by providing a non-assurance service to an audit client. This would seem to imply, even though not expressly stated, that the higher the level of expertise the lower the threat to auditor independence, and conversely the lower the expertise the higher the threat. If this interpretation is what the IESBA intended, then SME auditors will likely be at a general disadvantage unless the IESBA specifically address this.

Proposed R 600.8 follows extant paragraph 290.162 in specifically requiring the firm, or network firm, to ensure that the client's management delegates an individual who possesses suitable skill, knowledge and experience to be responsible, at all times, for the client's decisions and to oversee the (non-audit) service as a safeguard to address the risk of assuming management responsibility when providing any non-assurance

service to an audit client. This section also clarifies that that individual is not required to possess the expertise to perform or re-perform the services. We have two issues. First, we believe the IESBA should clarify what the requirement in R600.8 for the auditor to “ensure” is intended to mean in practical terms. The auditor cannot force a client to designate a person with a certain combination of skills, knowledge and experience. In the absence of clarification there is a risk this could be interpreted in such a way as to result in prohibition of certain services to many SME audit clients. Second, often in practice the SME client does not have or desire to have such a designated person, because the client intends to place a degree of trust in the auditor, whilst retaining decision making about the service and its outcome. Furthermore, in an SME environment supervisory elements are rare. We agree that an express acknowledgement of client responsibility for decision making and overseeing the services should remain the central focus of the requirement. We also accept that it is reasonable to require an individual understand the objectives, nature and results of the services as well as the respective client and firm responsibilities. However, in an SME context we believe it will generally be excessive and impractical to specifically require “suitable skill, knowledge and experience” in an individual to be designated to these tasks.

Specific Questions

Section 600, Provision of Non-Assurance Services to an Audit Client

1. Do respondents support the proposals in Section 600? If not, why not? In particular, do respondents agree with the proposal to extend the scope of the prohibition on recruiting services as described in paragraph 25(h) above to all audit client entities? If not, please explain why.

We do not believe that IESBA has made a strong enough case for the proposal to extend the provisions of paragraph 290.210 of the Code currently applicable to PIEs to all audits as proposed in R609.6. We have significant concerns and do not believe a sweeping prohibition of recruitment services for key posts is warranted in all audit and review circumstances. Recruiting services may vary considerably in terms of their significance to the audit or review. There is a significant difference between independence in fact / mind and independence in appearance depending on whether the audit or review is provided for an entity, a difference acknowledged in the last bullet point in 600.4 A3. In practice there is little public interest impact for SMEs, which would result in perceptions about independence. SMEs often will not have sufficiently qualified personnel possessing the ability to recruit suitably qualified individuals for the key positions contemplated in R609.6. An SME’s auditor may well be the best suited person to be able to advise on the necessary profile and experience of potential candidates; especially for financial positions such as the CFO. It is customary for

SMEs to involve the auditor in such an advisory capacity during the recruiting process. Hence the material in 609.3 A1 ought to continue to serve as an essential clarification in a non-PIE context. Paragraph 609.1 points out that such recruiting services create a self-interest, familiarity and intimidation threat. In our view, if the auditor is involved in the recruiting process, such as assisting in the selection of candidates, but not in making a management decision then the threat is not as significant as the IESBA proposal implies. Indeed, assisting in the selection of suitable candidates does not create any threats to the auditor's independence, but instead provides helpful and welcome assistance to the client. We do accept, however, that there would be a significant threat if the auditor assumed ultimate responsibility for a recruitment decision.

In relation to Section 604 Tax Services we note that 604.7 A2 proposes as a safeguard that tax calculations be undertaken by a tax professional that is not a team member (also in 604.10 A2). In SMPs the tax calculations will almost always be computed by a team member, because there are no special tax professionals and indeed no separate tax department as one finds in larger accounting firms. In addition, the team member knows the client and has the knowledge about specific facts that demand specific treatment in the tax returns. In the smallest SMPs there may not be a professional who is not a team member. Even where there is such a person available synergies will be lost and costs increased. Unless the tax is of a particularly contentious nature the risk of material misstatement ensuing from a self-review threat will likely be relatively insignificant. Where this is not the case, we agree that a safeguard would be appropriate.

Section 950, Provision of Non-Assurance Services to an Assurance Client

2. Do respondents support the proposals in Section 950? If not, why not?

We have no comments.

Examples of Safeguards

3. Do respondents have suggestions for other actions that might be safeguards in the NAS and other sections of the Code that would meet the revised description of a safeguard?

We have no comments.

Conforming Amendments Arising from the Safeguards Project

4. Do respondents agree with proposed conforming amendments set out in:

(a) Chapter 2 of this document.

(b) The gray text in Chapters 2–5 of Structure ED-2.

We have no further comments.

5. Respondents are asked for any comments on any other matters that are relevant to Phase 2 of the Safeguards project.

We have no further comments.

I trust that the above is comprehensive but should you have any questions, please contact me any time.

Yours faithfully,



Bodo Richardt

President